

Financial Accounting

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In general terms, financial accounting is the measurement of economic activity for decision-making. Financial statements are a key product of this measurement process and an important component of firms' financial reporting activities. In the past few years, financial accounting came to the forefront of the national consciousness as the stock market continued to decline amid faltering investor confidence. The crisis of confidence began with the revelation of accounting irregularities at some of the United States' largest companies. However, the implications extended well beyond the effects of individual accounting or company failures: investors seemed to lose confidence in the integrity of the financial system as a whole. The capital markets, whose relative efficiency is based largely on the timely dissemination of relevant and reliable financial information, were at risk. Clearly, the importance of understanding accounting has never been so salient.

The objective of this course is not to train you to become an accountant but rather to help you develop into an informed user of financial statement information. While financial statement users face a wide variety of decisions, they are often interested in understanding the implications of financial statement information for the future cash flows and earnings potential of a firm. We will focus on understanding the mapping between underlying economic events and financial statements, and on understanding how this mapping affects inferences about future profitability. Because annual reports are somewhat formidable, we will spend time familiarizing ourselves with how firms present the information for various accounts in the financial statements, including the footnotes. We also will discuss the role of the various institutions involved in the reporting process. By understanding the environment in which financial reporting takes place you will be in a better position to evaluate critically the disclosures made by firms in published financial statements.

Several features of the course are used to facilitate these learning objectives. The textbook provides a conceptual foundation for the course by introducing the accounting framework and by characterizing accounting principles and alternative methods. Class time will be allocated to a combination of short lectures and discussions of the assigned materials. The assigned cases serve as a basis for class discussion and provide a challenging test of your understanding of the topic. They are based on corporate financial statements and illustrate the issues associated with various accounting methods and the manner in which the related information is disclosed. In addition, the assigned cases demonstrate the "real life" magnitude of income and balance sheet differences under alternative accounting methods, as well as a variety of financial reporting discretion practices.

Organizational Matters

1. Required Text: Dyckman, T., R. Magee and G. Pfeiffer, *Financial Accounting*, 4th Edition, Cambridge Business Publishers, 2013 (Can also use the 3rd edition of the book, 2011). The text is referred to as (T).
2. Syllabus materials are organized according to the order in which they will be discussed in class. It includes the cases and additional readings. Syllabus materials are denoted (S).
3. Additional course materials, including solutions for the Self-Study problems, templates for some of the assigned cases, and additional class handouts are provided on the course website. The optional Self-Study problems are intended for your use as a tool for self-assessment and additional practice. I generally will not discuss the Self-Study problems during class, but you are responsible for knowing that material.
4. Grades will be based on a midterm exam, a comprehensive final exam, class performance, and hand-in homework assignments. The following weights will be used in calculating your final grade:

Midterm Exam	30%
Final Exam	45%
Homework Assignments	15%
Classroom Performance	<u>10%</u>
Total	100%

Classroom performance: Classroom performance comprises participation in class discussions, preparation for class, and attendance during class. I view class discussion as an integral part of the learning experience of the course. Your class participation grade will be based on contribution to class discussion, not based on the amount of time you talk. I recognize that students with different backgrounds will contribute differently to class discussion. Contributions can take many forms, including, but not limited to, insightful comments and thoughtful questions.

Meaningful class participation requires adequate preparation of the assignments for each class. In the rare instance that an emergency precludes you from preparing adequately for a particular class, you should notify me before the class begins.

Homework Assignments: Homework assignments listed in the course outline need to be submitted before the beginning of class. Your write-up of the case should be short and concise and be computer generated. The assignments will be graded based mostly on effort displayed. You are allowed to discuss the homework assignments and prepare the write-ups in groups of no more than four students. By having your name on a submitted assignment, you confirm that you contributed to the homework assignment.

You can skip one homework assignments without any “penalty”.

Please also bring a print-out of the write-up to class for the case discussion.

Course Overview

<u>Session</u>	<u>Date</u>	<u>Topic</u>
1	Feb 12/13	Introduction to Course
2	Feb 19/20	Fundamentals of Financial Reporting Statement of Cash Flows – Direct Method
3	Feb 26/27	F/S as a Management Planning Tool Statement of Cash Flows – Indirect Method Revenue and Expense Recognition
4	March 5/6	Revenue and Expense Recognition Accounts Receivable
5	March 12/13	Midterm Exam
6	March 26/27	Accounting for Inventories Fixed Assets
7	April 2/3	Fixed Assets Integrating Financial Statements
8	April 9/10	Intangible Assets Liabilities
9	April 16/17	Liabilities Income Taxes
10	April 23/24	Shareholders' Equity Financial Securities and Fair Value Accounting
11	April 30/May 1	Financial Ratios Review
12	May 7/ 8	FINAL EXAM

**Financial Accounting & Reporting
Specific Assignments (Subject to Change)**

**1: Feb 12/13
Introduction to Course**

Reading

(T) Chapter 1: Chapter 2

Self- Study

(T) Chapter 1: P1-34, P1-36, C1-44

(T) Chapter 2: M2-19, M2-24, M2-25, P2-55, P2-56

**2: Feb 19/20
Fundamentals of Financial Reporting
Statement of Cash Flows – Direct Method**

Reading

(T) Chapter 3 (pp. 97-116, skim pp. 116-123); Chapter 4

Assignment

(S) Radiation Shields Inc. - Part 1

Self-Study

(T) Chapter 3, E3-32;

(T) Chapter 4: M4-22, E4-44, P4-45, P4-48, P4-51

**3: Feb 26/27
F/S as a Management Planning Tool
Statement of Cash Flows – Indirect Method
Revenue and Expense Recognition**

Reading

(T) Chapter 6 (pp. 267-274; skim pp. 275-276); Chapter 7 (pp. 317-323)

Self- Study

(T) Chapter 6: M6-24, E6-26, P6-41; Chapter 7: E7-25

Assignment

(S) Hanson Ski Products

NOTE: Don't be intimidated by the sea of numbers. Most of the numbers you need to construct the balance sheets are directly given in the case. You don't need to forecast

future sales, develop a schedule for collections, or re-calculate interest expense, etc. All of this has been (implicitly) done for you in the projected balance sheets, income numbers, etc. There are only a few numbers you actually need to derive. An Excel spreadsheet with a useful format for completing the assignment is included with the case and is also available on the course web site.

Self-Study

(T) Chapter 4: M4-22, E4-44, P4-45, P4-48, P4-51

4: March 5/6

**Revenue and Expense Recognition
Accounts Receivable**

Reading

(T) Chapter 6 (pp. 277-289)

Self-Study

(T) Chapter 6: M6-20, P6-44

(S) Honeywell International Inc.

Assignment

(S) Sears, Roebuck & Co.

5: March 12/13

Midterm Exam

March 12/13 – No class – Spring Break

6: March 26/27

**Accounting for Inventories
Fixed Assets**

Reading

(T) Chapter 7 (pp. 323-345)

(T) Chapter 8 (pp. 365-380)

Self-Study

(T) Chapter 7: M7-20, E7-26, E7-29, P7-36

(T) Chapter 8: E8-22, P8-36, P8-39

(S) Chevron Corporation

Assignment

(S) Cisco Systems

7: April 2/3

Fixed Assets

Integrating Financial Statements

Self-Study

(T) Chapter 8: E8-22, P8-36, P8-39

(S) ConocoPhillips

Self-study for Integrating Financial Statements

(S) Radiation Shields Inc. - Part 2

(This case emphasizes the links among firms' financial statements and is designed to help you review basic accounting concepts prior to the midterm exam.)

Assignment

(S) Depreciation at Delta Air Lines and Singapore Airlines

(Please answer questions 1-4 on p. 4 of the case.)

8: April 9/10

Intangible Assets

Liabilities

Reading

(T) Chapter 8 (pp. 380-387)

(S) Handout, "Accounting Goodwill"

(T) Chapter 9 (pp. 389-414)

(S) Handout, "Basic Transactions for Bonds"

Self-Study

(T) Chapter 8: E8-31, C8-42

(S) Microsoft's Financial Reporting Strategy – Part B: Software Development Costs

(T) Chapter 9: M9-20, M9-22, E9-39

9: April 16/17

Liabilities

Income Taxes

Reading

(T) Chapter 10 (pp. 476-483)

Self-Study

(T) Chapter 10: M10-22, P10-40

Self-Study

(S) *International Paper*

Assignment

(S) *MGM Mirage*

10: April 23/24

Shareholders' Equity

Financial Securities and Fair Value Accounting

Reading

(T) Chapter 11 (pp. 507-525)

(S) Handout, "Shareholders' Equity"

(T) Chapter 12, (pp. 555-567)

Self-Study

(T) Chapter 11: E11-40, E11-45, P11-57

(S) ConocoPhillips

(T) Chapter 12: M12-12, E12-26, E12-29

Assignment

(S) Dell Computer

(S) Intel Corp.

11: April 30/May 1

Financial Ratios

Review

Reading

(S) Chapter 5

Self-Study

(T) Chapter 5: E5-34, P5-38 P5-39

12: May 7/8:

FINAL EXAM